

**REPORT OF THE AUDIT OF THE  
SIMPSON COUNTY  
SHERIFF'S SETTLEMENT - 2011 TAXES**

**For The Period  
April 16, 2011 Through April 16, 2012**



**ADAM H. EDELEN  
AUDITOR OF PUBLIC ACCOUNTS  
[www.auditor.ky.gov](http://www.auditor.ky.gov)**

**209 ST. CLAIR STREET  
FRANKFORT, KY 40601-1817  
TELEPHONE 502.564.5841  
FACSIMILE 502.564.2912**



**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**SIMPSON COUNTY**  
**SHERIFF'S SETTLEMENT - 2011 TAXES**

**For The Period**  
**April 16, 2011 Through April 16, 2012**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2011 Taxes for Simpson County Sheriff for the period April 16, 2011 through April 16, 2012. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The Sheriff collected taxes of \$9,037,506 for the districts for 2011 taxes, retaining commissions of \$322,163 to operate the Sheriff's office. The Sheriff distributed taxes of \$8,673,977 to the districts for 2011 taxes. Taxes of \$256 are due to the districts from the Sheriff and refunds of \$1,083 are due to the Sheriff from the taxing districts.

**Report Comments:**

- 2011-01 The Sheriff's Office Should Report And Distribute Taxes Collected By The Tenth Of Each Month
- 2011-02 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Reconciliations Without Compensating Controls

**Deposits:**

The Sheriff's deposits were insured and collateralized by bank securities.



## CONTENTS

## PAGE

INDEPENDENT AUDITOR'S REPORT.....	1
SHERIFF'S SETTLEMENT - 2011 TAXES.....	3
NOTES TO FINANCIAL STATEMENT .....	5
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS .....	11
COMMENTS AND RECOMMENDATIONS.....	15





**ADAM H. EDELEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Lori H. Flanery, Secretary

Finance and Administration Cabinet

Honorable Jim Henderson, Simpson County Judge/Executive

Honorable Chris Cline, Simpson County Sheriff

Members of the Simpson County Fiscal Court

Independent Auditor's Report

We have audited the Simpson County Sheriff's Settlement - 2011 Taxes for the period April 16, 2011 through April 16, 2012. This tax settlement is the responsibility of the Simpson County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Simpson County Sheriff's taxes charged, credited, and paid for the period April 16, 2011 through April 16, 2012, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated September 25, 2012 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky  
Honorable Steven L. Beshear, Governor  
Lori H. Flanery, Secretary  
Finance and Administration Cabinet  
Honorable Jim Henderson, Simpson County Judge/Executive  
Honorable Chris Cline, Simpson County Sheriff  
Members of the Simpson County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2011-01 The Sheriff's Office Should Report And Distribute Taxes Collected By The Tenth Of Each Month
- 2011-02 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Reconciliations Without Compensating Controls

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', with a long horizontal flourish extending to the right.

Adam H. Edelen  
Auditor of Public Accounts

September 25, 2012



SIMPSON COUNTY  
CHRIS CLINE, SHERIFF  
SHERIFF'S SETTLEMENT - 2011 TAXES

For The Period April 16, 2011 Through April 16, 2012

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 981,210	\$ 1,068,645	\$ 4,420,302	\$ 1,185,224
Tangible Personal Property	168,635	144,872	480,603	613,427
Inventory In Transit		19,675		
Street Lights		8,598		
Increases Through Exonerations	34	37	155	41
Franchise Taxes	49,674	45,162	159,624	
Additional Billings	116	126	523	140
Oil Property Taxes	144	157	650	174
Limestone, Sand and Mineral Reserves	281	306	1,264	339
Bank Franchises	58,477			
Penalties	5,185	5,649	23,161	6,418
Adjusted to Sheriff's Receipt	(325)	1	(79)	(63)
Gross Chargeable to Sheriff	<u>1,263,431</u>	<u>1,293,228</u>	<u>5,086,203</u>	<u>1,805,700</u>
<u>Credits</u>				
Exonerations	10,540	9,370	32,286	27,734
Discounts	19,386	19,698	77,224	29,055
Delinquents:				
Real Estate	23,569	25,852	106,178	28,470
Tangible Personal Property	222	191	636	570
Oil Property Taxes	10	11	43	11
Total Credits	<u>53,727</u>	<u>55,122</u>	<u>216,367</u>	<u>85,840</u>
Taxes Collected	1,209,704	1,238,106	4,869,836	1,719,860
Less: Commissions *	<u>51,413</u>	<u>51,561</u>	<u>146,095</u>	<u>73,094</u>
Taxes Due	1,158,291	1,186,545	4,723,741	1,646,766
Taxes Paid	1,150,875	1,179,516	4,700,390	1,643,196
Refunds (Current and Prior Year)	<u>7,568</u>	<u>6,827</u>	<u>24,013</u>	<u>3,785</u>
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Audit	<u>\$ (152)</u>	<u>\$ 202</u>	<u>\$ (662)</u>	<u>\$ (215)</u>

\* and \*\* See next page.

The accompanying notes are an integral part of this financial statement.

SIMPSON COUNTY  
CHRIS CLINE, SHERIFF  
SHERIFF'S SETTLEMENT - 2011 TAXES  
For The Period April 16, 2011 Through April 16, 2012  
(Continued)

\* Commissions:

4.25% on	\$	3,744,390
4% on	\$	423,280
3% on	\$	4,869,836

\*\* Special Taxing Districts:

Library District	\$	16
Extension Service District		(54)
Ambulance District		<u>240</u>

Due Districts or

(Refund Due Sheriff)

\$	<u><u>202</u></u>
----	-------------------

SIMPSON COUNTY  
NOTES TO FINANCIAL STATEMENT

April 16, 2012

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Simpson County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

SIMPSON COUNTY  
NOTES TO FINANCIAL STATEMENT  
April 16, 2012  
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Simpson County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 16, 2012, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2011. Property taxes were billed to finance governmental services for the fiscal year ended June 30, 2012. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 11, 2011 through April 16, 2012.

B. Oil Property and Limestone Taxes

The oil property and limestone property tax assessments were levied as of January 1, 2011. Property taxes were billed to finance governmental services for the fiscal year ended June 30, 2012. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 15, 2011 through May 16, 2012.

C. Franchise Taxes

The franchise assessments were levied by the Kentucky Department of Revenue for various tax years. Franchise taxes are billed to finance governmental services. The collection period for these assessments was April 16, 2011 through April 16, 2012.

Note 4. Interest Income

The Simpson County Sheriff earned \$2,121 as interest income on 2011 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Simpson County Sheriff collected \$28,194 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the Sheriff's office.

SIMPSON COUNTY  
NOTES TO FINANCIAL STATEMENT  
April 16, 2012  
(Continued)

Note 6. Unrefundable Duplicate Payments And Unexplained Receipts

The Sheriff deposited unrefundable duplicate payments and unexplained receipts in an interest-bearing account. The Sheriff's escrowed amounts were as follows:

2006	\$1,595
2007	\$489
2008	\$28
2009	\$14
2011	\$30

KRS 393.090 states that after three years, if the funds have not been claimed, they are presumed abandoned and abandoned funds are required to be sent to the Kentucky State Treasurer by KRS 393.110. The Sheriff should send a written report to the Treasury Department and submit \$2,112 to the Kentucky State Treasurer in accordance with KRS 393.110 for the amounts escrowed for 2006, 2007, and 2008.

On August 30, 2012, the Sheriff submitted a written report to the Treasury Department and submitted \$2,112 to the Kentucky State Treasurer in accordance with KRS 393.110 for the amounts escrowed for 2006, 2007, and 2008.

THIS PAGE LEFT BLANK INTENTIONALLY

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS







**ADAM H. EDELEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Jim Henderson, Simpson County Judge/Executive  
Honorable Chris Cline, Simpson County Sheriff  
Members of the Simpson County Fiscal Court

**Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Simpson County Sheriff's Settlement - 2011 Taxes for the period April 16, 2011 through April 16, 2012, and have issued our report thereon dated September 25, 2012. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

Management of the Simpson County Sheriff's office is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comments and recommendations, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comments and recommendations as item 2011-02 to be a material weakness.



Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Simpson County Sheriff's Settlement - 2011 Taxes for the period April 16, 2011 through April 16, 2012, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations as item 2011-01.

The Simpson County Sheriff's response to the findings identified in our audit is described in the accompanying comments and recommendations. We did not audit the Sheriff's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Simpson County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', written in a cursive style.

Adam H. Edelen  
Auditor of Public Accounts

September 25, 2012

## COMMENTS AND RECOMMENDATIONS



SIMPSON COUNTY  
CHRIS CLINE, SHERIFF  
COMMENTS AND RECOMMENDATIONS

For The Period April 16, 2011 Through April 16, 2012

STATE LAWS AND REGULATIONS:

2011-01    The Sheriff's Office Should Report And Distribute Taxes Collected By The Tenth Of Each Month

During our audit, we noted that eighteen of forty-eight franchise tax bills collected in the amount of \$145,679 were not reported and distributed to the taxing districts in a timely manner. In addition, we noted that all bank franchise tax bills in the amount of \$57,307 were not reported and distributed to the Simpson County Fiscal Court in a timely manner. Failing to report and distribute tax bills collected in a timely manner reduces the amount of operating funds the taxing districts have available. Good internal controls dictate that the Sheriff should monitor the amount reported and distributed to the districts each month to ensure all collections are reported timely. Kentucky Revised Statutes 134.191(1) and 160.510 require the Sheriff's office to report and distribute taxes collected by the tenth of each month. We recommend that the Sheriff report and distribute all tax collections by the tenth of each month.

*Sheriff's Response: This happened due to our bookkeeper being in the hospital and off work for 2 weeks with pneumonia.*

INTERNAL CONTROL – MATERIAL WEAKNESS:

2011-02    The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Reconciliations Without Compensating Controls

During our review of internal controls, we noted the Sheriff's office lacks adequate segregation of duties over receipts and reconciliations. The Sheriff's bookkeeper collects payments from customers, prepares deposits, prepares daily collection printouts, and posts to the receipts ledger. In addition, the Sheriff's bookkeeper prepares monthly tax reports, reconciles monthly tax reports to receipts and disbursements, and prepares the monthly bank reconciliations. The Sheriff or another individual did not document oversight of any of these activities.

The lack of segregation of duties occurs because the Sheriff has failed to segregate incompatible duties or implement oversight duties when duties cannot be segregated. Lack of segregation of duties increases the risk of misappropriation of assets, errors, and inaccurate financial reporting. Adequate segregation of duties over receipts and reconciliations would prevent the same person from having a significant role in these incompatible functions. We recommend the Sheriff separate duties in collecting taxes, preparing daily deposits, preparing monthly reports, and preparing reconciliations. If these duties cannot be segregated due to limited staff or budget, then strong oversight should be provided over the employee responsible for these duties. The Sheriff or employee providing the oversight should document this oversight.

*Sheriff's Response: None.*

